

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA**

Independent Auditors' Reports
Financial Statements

Supplemental Information

Schedule of Findings

June 30, 2005

MT. PLEASANT MUNICIPAL UTILITIES A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

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MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Board of Trustees and Officials
June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
David Carrick	Chairman of the Board	October, 2009
Richey Dickson	Board Member	October, 2007
Dan McCabe	Board Member	October, 2005
Bobby Stull	Board Member	October, 2007
Harvey Ungerman	Board Member	October, 2005
Lori A. Glanzman	General Manager	
Randall Neff	Treasurer/Business Manager	
David McCoid	Attorney	

Independent Auditors' Report

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying combining Statement of Net Assets of the Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2005, and the related Combining Statement of Revenue, Expenses and Changes in Net Assets, and Combining Statement of Cash Flows. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 2 of the Notes to Financial Statements, property and equipment acquired prior to November 1, 1973 is accounted for and is being depreciated for periods since that date on appraisal values representing fair value as of that date. No depreciation has been recognized for periods prior to November 1, 1973. As explained in Note 3 of the Notes to Financial Statements, balances represented by contributed capital, retained earnings and appraisal increase are accounted for in total rather than being separated into its component parts. These practices, the effect of which is not determinable because municipal property and equipment cost records and equity records are not available, are not in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of appraisal values of equipment and net assets breakdown as discussed in the third paragraph of this report, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2005, and the changes in financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2005, on our consideration of the Mt. Pleasant Municipal Utilities' – a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information in pages 4 through 8 and 26 through 28 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are present herein) and expressed qualified opinions on those financial statements. The supplemental information included in pages 29 through 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
August 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Utilities provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Revenues of the Utilities' activities increased 10.8%, or approximately \$713,500, from 2004 to 2005.
- Operating expenses increased 6.1%, or approximately \$402,800, in fiscal 2005 from fiscal 2004.
- Mt. Pleasant Utilities' net assets decreased 0.9%, or approximately \$138,000, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the government's financial activities.

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Utilities as a whole and present an overall view of the Utilities' finances.

The Financial Statements tell how enterprise services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Utilities as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of Mt. Pleasant Utilities is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report one kind of activity:

- Business type activities, which include the water and the electric departments. These activities are financed primarily by user charges.

Fund Financial Statements

The required financial statements of the proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below focuses on the net assets and changes in net assets for business type activities.

Net Assets		June 30,	
		<u>2005</u>	<u>2004</u>
Current and other assets	\$	4,931,577	4,591,022
Capital assets		<u>21,287,194</u>	<u>22,075,546</u>
Total assets	\$	<u>26,218,771</u>	<u>26,666,568</u>
Long-term liabilities	\$	9,681,552	10,262,001
Other liabilities		<u>1,335,294</u>	<u>1,064,796</u>
Total liabilities	\$	<u>11,016,846</u>	<u>11,326,797</u>
Net assets:			
Restricted	\$	2,168,984	2,105,031
Unrestricted		<u>13,032,941</u>	<u>13,234,740</u>
Total net assets	\$	<u>15,201,925</u>	<u>15,339,771</u>

Net assets of business type activities decreased from fiscal year 2004 by approximately \$138,000, or 0.9%. The largest portion of the Utilities' net assets is the Invested in Capital Assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted current assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, is approximately \$933,000 at the end of this year.

**Changes in Net Assets
Year Ended June 30, 2005**

Revenues:

Operating revenues:

Charges for services and sales	\$	7,343,722
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Non-operating revenues:

Investment earnings		64,799
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Other non-operating revenue		5,979
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Total revenues		7,414,500
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Operating expenses:

Power, pumping and treatment plant		4,796,353
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Transmission and distribution		1,246,089
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General and administration		988,601
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Non-operating expenses:

Interest expense		430,855
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Other non-operating expense		2,948
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Total expenses		7,464,846
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Permanent transfer to City of Mt. Pleasant		(87,500)
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Decrease in net assets		(137,846)
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Net assets beginning of year		15,339,771
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Net assets end of year	\$	15,201,925
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INDIVIDUAL MAJOR FUND ANALYSIS

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2005 with a \$5,837,215 net asset balance compared to the prior year ending net asset balance of \$5,950,330.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2005 with a \$9,364,710 net asset balance compared to the prior year ending net asset balance of \$9,389,441.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Utilities amended its budget once. The amendment was done in May of 2005. The amendment was needed to cover unplanned disbursements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, and equipment. Capital assets for business type activities totaled \$21,287,194 (net of accumulated depreciation) at June 30, 2005. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2005 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Debt

At June 30, 2005, long-term debt outstanding for business type activities was \$9,882,635. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 16 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2006 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Utilities' finances and operating activities. If you have questions about this report or need additional financial information, contact the General Manager, 509 N. Adams, Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Assets
June 30, 2005

	<u>Assets</u>		
	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 757,941	(475,718)	282,223
Certificates of deposit	350,835	300,117	650,952
Receivables:			
Customer	357,079	101,073	458,152
Unbilled usage	380,048	97,800	477,848
Due from water account	102,323	-	102,323
Material and supplies inventory	299,718	92,881	392,599
Prepaid expenses	73,685	67,861	141,546
Total current assets	<u>2,321,629</u>	<u>184,014</u>	<u>2,505,643</u>
Restricted assets:			
Cash	612,447	582,018	1,194,465
Certificates of deposit	348,602	300,117	648,719
Other investments	582,750	-	582,750
Total restricted assets	<u>1,543,799</u>	<u>882,135</u>	<u>2,425,934</u>
Total current and restricted assets	<u>3,865,428</u>	<u>1,066,149</u>	<u>4,931,577</u>
Property and equipment:			
Acquired prior to November 1, 1973, at appraised value	3,099,450	1,584,695	4,684,145
Less: depreciation accumulated since November 1, 1973, computed by the straight-line method	<u>3,099,450</u>	<u>1,393,817</u>	<u>4,493,267</u>
	<u>-</u>	<u>190,878</u>	<u>190,878</u>
Acquired since November 1, 1973, at cost	19,417,845	14,169,264	33,587,109
Less: accumulated depreciation, computed by the straight-line method	<u>7,934,372</u>	<u>4,556,421</u>	<u>12,490,793</u>
	<u>11,483,473</u>	<u>9,612,843</u>	<u>21,096,316</u>
Total property and equipment	<u>11,483,473</u>	<u>9,803,721</u>	<u>21,287,194</u>
Total assets	<u>\$ 15,348,901</u>	<u>10,869,870</u>	<u>26,218,771</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current liabilities, payable from current assets:			
Accounts payable and accrued expenses	\$ 786,945	104,177	891,122
Due to light account	<u>-</u>	<u>102,323</u>	<u>102,323</u>
Total current liabilities, payable from current assets	<u>786,945</u>	<u>206,500</u>	<u>993,445</u>
Long-term liabilities:			
Notes payable	<u>5,014,802</u>	<u>4,666,750</u>	<u>9,681,552</u>
Total long-term liabilities	<u>5,014,802</u>	<u>4,666,750</u>	<u>9,681,552</u>
Current liabilities, payable from restricted assets:			
Customer deposits	84,900	-	84,900
Accrued interest	41,711	14,155	55,866
Notes payable	<u>55,833</u>	<u>145,250</u>	<u>201,083</u>
Total current liabilities, payable from restricted assets	<u>182,444</u>	<u>159,405</u>	<u>341,849</u>
Total liabilities	<u>5,984,191</u>	<u>5,032,655</u>	<u>11,016,846</u>
Net assets, restricted for:			
Improvement account	482,300	302,070	784,370
Contingency account	315,423	-	315,423
Reserve account	638,290	419,256	1,057,546
Sinking account	10,242	1,403	11,645
Unrestricted	<u>7,918,455</u>	<u>5,114,486</u>	<u>13,032,941</u>
Total net assets	<u>9,364,710</u>	<u>5,837,215</u>	<u>15,201,925</u>
 Total liabilities and net assets	 \$ <u>15,348,901</u>	 <u>10,869,870</u>	 <u>26,218,771</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2005

	Light	Water	Total
Operating revenue:			
Metered sales	\$ 5,684,308	1,524,322	7,208,630
Other sales	39,308	-	39,308
Other revenue	17,642	28,610	46,252
Cut-off notice fee	6,095	2,032	8,127
Sewer and solid waste service fee	13,500	4,500	18,000
Penalty charges and bad debt recoveries	17,554	5,851	23,405
Total operating revenue	<u>5,778,407</u>	<u>1,565,315</u>	<u>7,343,722</u>
Operating expenses:			
Power, pumping and treatment plant	3,992,148	804,205	4,796,353
Transmission and distribution	700,212	545,877	1,246,089
General and administration	741,451	247,150	988,601
Total operating expenses	<u>5,433,811</u>	<u>1,597,232</u>	<u>7,031,043</u>
Net operating income (loss)	<u>344,596</u>	<u>(31,917)</u>	<u>312,679</u>
Non-operating revenue:			
Interest income	9,194	7,170	16,364
Interest income - restricted	41,429	7,006	48,435
Gain on sale of assets	542	5,437	5,979
Total other revenue	<u>51,165</u>	<u>19,613</u>	<u>70,778</u>
Non-operating expenses:			
Interest expense - restricted	257,461	173,394	430,855
Banking fees - restricted	422	2,526	2,948
Total other expenses	<u>257,883</u>	<u>175,920</u>	<u>433,803</u>
Change in net assets	137,878	(188,224)	(50,346)
Net assets beginning of year	9,389,441	5,950,330	15,339,771
Residual equity transfer	(75,109)	75,109	-
Permanent transfer to City of Mt. Pleasant	<u>(87,500)</u>	<u>-</u>	<u>(87,500)</u>
Net assets end of year	<u>\$ 9,364,710</u>	<u>5,837,215</u>	<u>15,201,925</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
For the Year Ended June 30, 2005

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Cash received from customers and users	\$ 5,707,214	1,552,654	7,259,868
Cash received from other revenues	8,747	12,525	21,272
Cash paid to employees for services	(810,186)	(613,529)	(1,423,715)
Cash paid to suppliers	<u>(4,017,600)</u>	<u>(739,120)</u>	<u>(4,756,720)</u>
Net cash provided (used) by operating activities	<u>888,175</u>	<u>212,530</u>	<u>1,100,705</u>
Cash flow from capital activities:			
Permanent transfer to city	(87,500)	-	(87,500)
Residual equity transfer	(75,109)	75,109	-
Cash used for leases payable	-	(15,976)	(15,976)
Cash used for notes payable	(320,000)	(240,000)	(560,000)
Purchase of property and equipment	<u>(51,042)</u>	<u>(134,752)</u>	<u>(185,794)</u>
Net cash provided (used) by capital activities	<u>(533,651)</u>	<u>(315,619)</u>	<u>(849,270)</u>
Net change in cash	354,524	(103,089)	251,435
Cash and cash equivalents at beginning of year	<u>1,598,614</u>	<u>209,389</u>	<u>1,808,003</u>
Cash and cash equivalents at end of year	\$ <u><u>1,953,138</u></u>	<u><u>106,300</u></u>	<u><u>2,059,438</u></u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2005

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Change in net assets	\$ 137,878	(188,224)	(50,346)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	619,196	354,951	974,147
Bond premium and issuance cost amortization	11,277	-	11,277
Changes in assets and liabilities:			
(Increase) decrease in accrued interest	(989)	(82)	(1,071)
(Increase) decrease in due from other accounts	518	(518)	-
(Increase) decrease in accounts receivable	(11,208)	518	(10,690)
(Increase) decrease in unbilled usage	(60,503)	(12,661)	(73,164)
(Increase) decrease in inventories	(4,943)	4,329	(614)
(Increase) decrease in prepaid expense	(27)	(4,073)	(4,100)
Increase (decrease) in customer deposits	(1,990)	-	(1,990)
Increase (decrease) in accounts payable and accrued expenses	<u>198,966</u>	<u>58,290</u>	<u>257,256</u>
Net cash provided (used) by operating activities	<u>888,175</u>	<u>212,530</u>	<u>1,100,705</u>
Cash flow from capital activities:			
Permanent transfer to city	(87,500)	-	(87,500)
Residual equity transfer	(75,109)	75,109	-
Cash used for leases payable	-	(15,976)	(15,976)
Cash used for notes payable	(320,000)	(240,000)	(560,000)
Purchase of property and equipment	<u>(51,042)</u>	<u>(134,752)</u>	<u>(185,794)</u>
Net cash provided (used) by capital activities	<u>(533,651)</u>	<u>(315,619)</u>	<u>(849,270)</u>
Net change in cash	354,524	(103,089)	251,435
Cash and cash equivalents at beginning of year	<u>1,598,614</u>	<u>209,389</u>	<u>1,808,003</u>
Cash and cash equivalents at end of year	<u>\$ 1,953,138</u>	<u>106,300</u>	<u>2,059,438</u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2005

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 757,941	(475,718)	282,223
Restricted assets:			
Cash	612,447	582,018	1,194,465
Other investments	<u>582,750</u>	<u>-</u>	<u>582,750</u>
Total cash and cash equivalents at end of year	\$ <u>1,953,138</u>	<u>106,300</u>	<u>2,059,438</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements
June 30, 2005

Note 1 – Significant Accounting Policies

The Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry and other entities in Mt. Pleasant and surrounding areas.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utilities. These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council. The financial statements of the Mt. Pleasant Municipal Utilities are prepared in accordance with U.S. generally accepted accounting principles. The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Inventories

The method used to figure the carrying value of inventories is the lower of average cost or market. Information as to the accounting policies relative to the carrying value of property and equipment, fund balances and the recognition of income from the services sold to the City is included in the other Notes to Financial Statements.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 1 – Significant Accounting Policies (Continued)

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Net Assets are allocated 75% and 25% to the Light and Water Funds, respectively.

Cash Equivalent

For purposes of the Combining Statement of Cash Flow, the Utilities considers all highly liquid investments, including restricted assets, with maturity of three months or less when purchased to be cash equivalents.

Basis of Presentation

The accounts of the Utilities are organized on the basis of funds. The operations are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The electric and water accounts are classified in the Enterprise Fund. The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Measurement Focus and Basis of Accounting

The Utilities maintains its financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 1 – Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amount budgeted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Property and Equipment Accounting Policies

Vanguard Appraisals, Inc., an appraisal company, inspected the property and equipment of the Light and Water Funds and computed the appraised value based on market conditions as of November 1, 1973. Property and equipment acquired prior to November 1, 1973 is being accounted for on the basis of those appraised values. The appraised value of the depreciable property and equipment is being depreciated by the straight-line method over its estimated remaining useful life on November 1, 1973.

Complete property and equipment cost records are not available, making it impossible to determine the effect of the use of appraised values on the presentation of financial position and results of operations.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 2 – Property and Equipment Accounting Policies (Continued)

Accounting for property and equipment on the basis of appraised values is not in accordance with accounting principles generally accepted in the United States of America.

Property and equipment acquired subsequent to November 1, 1973, is accounted for on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful life of the property and equipment. Detail of property and equipment at June 30, 2005 by category is as follows:

<u>At Appraised Value</u>	<u>Light Fund</u>	<u>Water Fund</u>
Buildings	\$ 598,000	146,000
Production equipment	1,653,400	504,300
Distribution equipment	809,400	917,200
Machinery and equipment	30,250	12,995
Office furniture and fixtures	8,400	4,200
Total	\$ <u>3,099,450</u>	<u>1,584,695</u>
<u>At Cost</u>	<u>Light Fund</u>	<u>Water Fund</u>
Land	\$ -	131,975
Land improvements	23,653	-
Edr treatment plant	-	6,149,810
Buildings	362,552	1,274,468
Production equipment	9,817,179	585,162
Distribution system	6,895,331	3,296,380
Water tower	-	1,216,996
Machinery and equipment	636,237	606,947
Transportation equipment	150,727	-
Office furniture and fixtures	153,886	52,008
Consultant services	1,124,329	855,518
Steam supply line	42,667	-
Computer	188,581	-
Leasehold improvements	22,703	-
Total	\$ <u>19,417,845</u>	<u>14,169,264</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 2 – Property and Equipment Accounting Policies (Continued)

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 4 regarding electricity, water and related services furnished to the City without charge.

Note 3 – Contributed Capital, Retained Earnings and Appraisal Increase

Available accounting records are not adequate to make it possible to separately identify and account for contributed capital, net assets and the appraisal increase of property and equipment. As a result, these separate elements of the net assets of the Light and Water Accounts are grouped for financial statement presentation. The combined presentation of these components of net assets is not in accordance with U.S. generally accepted accounting principles.

Note 4 – Donated Electricity and Water

The municipal parks, city hall and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2005, services donated to the City totaled \$206,499 and \$27,663 for the Light and Water Funds, respectively. No revenue has been recognized in the financial statements for these amounts.

Note 5 – Deposits and Investments

The Municipal Utilities' deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utilities pools investment funds to gain the best possible interest rates. Control records are maintained for the investment balance related to each account, the total of which is the total of investments pooled.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 5 – Deposits and Investments (Continued)

The Municipal Utilities is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees, prime eligible bankers acceptances, certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Municipal Utilities' investments are categorized to give an indication of the level of risk assumed by the Municipal Utilities at year end. The Utilities' investments are all category 1 which means the investments are insured or registered or the securities are held by the Utilities or its agent in the Utilities' name.

Note 6 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$82,603, \$79,809 and \$81,142 respectively, equal to the required contributions for the year.

Note 7 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$3,124,249 which represents 98.5% of total kilowatt hours generated and purchased.

The current power agreement expires December 31, 2008. A new agreement is subject to approval by both parties.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 8 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2005. This amount based on June 30, 2005 wages and salaries was \$85,980.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The Mt. Pleasant Utilities has adopted a policy to accrue accumulated sick leave for employees they are anticipating will retire within three years. Each year during this three year period, one third of the contingent liability for that employee's accumulated sick leave (up to 90 days) will be accrued in the financial records. On June 30, 2005, the liability was \$12,510.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2005 is approximately \$174,066.

Note 9 – Certified Budget

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted.

Note 10 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2005 was as follows:

Interest	\$430,894
Taxes	-

Note 11 – Accounts Receivable

The Utilities supplies electric and water services to businesses and residents of Mt. Pleasant and surrounding areas. The Utilities grants credit to these customers.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 12 – Restricted Cash and Investments

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. The funds set aside for the year ended June 30, 2005 are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Annual Set-Aside Amount</u>
Light Improvement	Major capital improvement	\$ 120,000
Water Improvement	Major capital improvement	48,000
Water Sinking	Debt service	167,850
Electric Sinking	Debt service	210,361
Electric Reserve	Debt service	12,000
Light Contingency	Major capital improvement	60,000

Restricted cash consists of the following:

	<u>Interest Earned</u>	<u>Cash</u>	<u>Fund Equity Designations</u>
Light Improvement Account	\$ 3,705	\$ 482,300	Light Improvement
Contingency Account	5,032	315,423	Contingency
Water Improvement Account	7,006	302,070	Water Improvement
Water Sinking Account	-	160,809	Water Sinking
Water Reserve Account	-	419,256	Water Reserve
Electric Sinking Account	-	107,786	Electric Sinking
Electric Reserve Account	32,692	<u>638,290</u>	Electric Reserve
Total restricted cash		\$ <u>2,425,934</u>	

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 12 – Restricted Cash and Investments (Continued)

During the year the following transfers between accounts were made:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Electric Operating	Electric Sinking	\$ 35,729
Electric Contingency	Water Operating	32,109
Electric Operating	Water Sinking	174,632
Electric Operating	Electric Improvement	181,047
Electric Contingency	Electric Operating	60,000
Electric Reserve	Electric Sinking	32,692
Water Operating	Water Sinking	92,491
Electric Operating	Water Operating	43,000
Water Improvement	Water Operating	75,735
Water Operating	Water Improvement	48,000
Electric Operating	Electric Reserve	12,000
Water Operating	Water Sinking	75,359
Electric Operating	Electric Contingency	60,000

The board authorized all transfers.

Note 13 – Allowance for Doubtful Accounts

As of June 30, 2005, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$3,750 and \$1,250, respectively.

Note 14 – Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 15 – Notes Payable

Annual debt service requirements to maturity for revenue notes per the resolution are as follows:

Year Ending June 30	<u>Water Revenue Notes</u>		Service Fees	<u>Electric Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2006 \$	249,000	165,469	2,406	335,000	246,165
2007	258,000	156,520	2,281	350,000	231,090
2008	267,000	147,254	2,152	365,000	215,340
2009	276,000	137,670	2,019	380,000	198,003
2010	286,000	127,752	1,881	400,000	179,953
2011	296,000	117,478	1,738	420,000	161,953
2012	306,000	106,853	1,590	435,000	142,843
2013	317,000	95,857	1,437	460,000	122,615
2014	328,000	84,473	1,279	480,000	100,765
2015	340,000	72,683	1,115	500,000	77,725
2016	352,000	60,469	945	525,000	53,475
2017	365,000	47,814	769	555,000	27,750
2018	377,000	34,718	586	-	-
2019	391,000	21,162	397	-	-
2020	<u>404,000</u>	<u>7,130</u>	<u>201</u>	<u>-</u>	<u>-</u>
\$	<u>4,812,000</u>	<u>1,383,302</u>	<u>20,796</u>	<u>5,205,000</u>	<u>1,757,677</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 15 – Notes Payable (Continued)

The resolution providing for a loan agreement between the Mt. Pleasant Utilities and the Department of Natural Resources, and securing the payment of \$5,934,000 Water Revenue Capital Loan Notes, Series 1999 include the following provisions:

All revenues were deposited in a water revenue account. From the water revenue account, transfers may be made to the following accounts:

1. Monthly transfers to cover the operations and maintenance of the water system plus 1/12th of any annual system cost into an operations and maintenance account.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into a water sinking account.
3. Monthly transfers equal to a reserve account requirement which is 25% of the amount to be deposited in the water sinking account, to be deposited into a water reserve account.

The Utilities issued electric revenue bonds in an aggregate principal amount of \$6,415,000 dated May 1, 2001. Bond issuance costs were capitalized and netted with bond premium. The unamortized costs were \$140,936 at June 30, 2005. The unamortized premium was \$6,572 at June 30, 2005. The bonds are shown net of the unamortized costs and premium on the balance sheet. The net unamortized costs and premium will be amortized over the life of the bonds.

All revenues were deposited in the electric revenue account. After reserving an adequate sum as working capital for the system, the following payments only shall be made:

1. All reasonable and proper expenses of operating, maintaining and repairing the system.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into an electric sinking account.
3. Monthly transfers into debt service reserve account such sum, but not in excess of amounts deposited in the sinking account as may be necessary and available, to make up any deficiency in the debt service reserve account requirement.
4. Monthly into repairs and replacement account an amount equal to \$1,000 unless and until the balance on deposit in the repairs and replacement account is equal to \$50,000.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2005

Note 16 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	<u>Water Revenue Notes</u>	<u>Electric Revenue Notes</u>	<u>Total</u>
Balance beginning of year	\$ 5,052,000	5,525,000	10,577,000
Increases	-	-	-
Decreases	<u>240,000</u>	<u>320,000</u>	<u>560,000</u>
Balance end of year	\$ <u>4,812,000</u>	<u>5,205,000</u>	<u>10,017,000</u>
Due within one year	\$ <u>249,000</u>	<u>335,000</u>	<u>584,000</u>

Note 17 – Capital Leases

The Utilities has a capital lease with Harco Leasing Company, Inc. for an International Dump Truck. The lease is dated October 18, 2002, and had a financed amount of \$47,960 with an interest rate of 4.44% per annum. The two-year note states an annual payment of \$16,686 with a bargain purchase option of principal plus 2% at the end of the lease. The lease was paid off during the year ended June 30, 2005.

Amortization for the current year is included in depreciation expense and accumulated amortization is included in accumulated depreciation.

Note 18 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility employees, totaling \$4,619 during the year ended June 30, 2005.

Note 19 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2005 was \$87,500.

Note 20 – Commitments

The Utilities has the following commitments at June 30, 2005:

<u>Project</u>	<u>Vendor</u>	<u>Amount</u>
Riser pipe replacement	Watertower Paint and Repair	\$ 44,500
Water tank service contract	Maquire Iron, Inc.	6,500

Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Net Assets -
Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2005

		Actual	Budgeted Amounts		Final to Actual Variance
			Original	Final	
Receipts	\$	7,282,211	6,900,800	7,164,800	117,411
Disbursements, including capital outlay		6,942,205	7,128,713	7,269,266	327,061
Net		340,006	(227,913)	(104,466)	444,472
Other financing sources, net		(87,500)	-	-	(87,500)
Beginning net assets		3,106,603	2,950,905	2,950,905	155,698
Ending net assets	\$	<u>3,359,109</u>	<u>2,722,992</u>	<u>2,846,439</u>	<u>512,670</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2005

	Proprietary Funds		
		Enterprise	
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 7,282,211	132,289	7,414,500
Expenditures / expenses	6,942,205	522,641	7,464,846
Net	340,006	(390,352)	(50,346)
Other financing sources, net	(87,500)	-	(87,500)
Beginning net assets	3,106,603	12,233,168	15,339,771
Ending net assets	<u>\$ 3,359,109</u>	<u>11,842,816</u>	<u>15,201,925</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. One of the 9 functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$140,553. This budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

	Year Ended June 30,	
	2005	2004
Number of customers served:		
Electricity:		
Residential	3,118	3,150
Commercial	669	601
Electric heat	197	198
Vapor lights	122	121
Special commercial demand	32	34
Steam	1	1
Water	3,523	3,496
Kilowatt hours:		
Number of kilowatt hours purchased	74,581,647	73,019,962
Number of kilowatt hours produced	1,098,036	4,319,998
	<u>75,679,683</u>	<u>77,339,960</u>
Number of kilowatt hours sold	66,625,233	64,220,459
% of kilowatt hours sold to total produced and purchased	88.04%	83.04%
Number of kilowatt hours for export	-	588,161
Number of kilowatt hours for internal use	5,244,270	4,837,110
Number of kilowatt hours donated to city	2,746,554	3,585,657
	<u>7,990,824</u>	<u>9,010,928</u>
Gallons:		
Number of gallons pumped	648,979,500	653,780,400
Number of gallons billed	503,789,739	509,100,856
% of gallons billed to total pumped	77.63%	77.87%
Number of gallons for internal use	1,692,676	2,574,280
Number of gallons donated to city	3,327,028	3,254,534
	<u>5,019,704</u>	<u>5,828,814</u>

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not investigated by the auditor.

See accompanying independent auditors' report on supplemental data.

2003	2002	2001	2000	1999
3,122	3,106	3,094	3,079	3,110
580	567	563	553	567
197	203	204	205	218
124	124	90	95	123
32	30	30	30	15
1	1	1	1	1
3,412	3,385	3,354	3,319	3,326
71,488,835	70,113,199	74,612,000	68,000,000	65,442,200
3,176,683	47,360	80,160	417,632	650,400
74,665,518	70,160,559	74,692,160	68,417,632	66,092,600
62,366,918	60,844,890	62,061,269	59,304,527	58,781,449
83.53%	86.72%	83.09%	86.68%	88.94%
1,088,160	-	-	-	-
5,418,390	4,335,999	3,986,724	3,433,702	3,265,270
3,062,319	2,397,848	2,231,994	2,172,936	2,136,236
9,568,869	6,733,847	6,218,718	5,606,638	5,401,506
693,672,500	675,764,100	587,141,400	527,793,900	511,986,000
516,204,515	520,524,706	440,081,057	378,847,692	357,163,790
74.42%	77.03%	74.95%	71.78%	69.76%
2,286,362	3,419,619	6,678,597	8,773,645	2,500,815
3,352,101	3,855,091	8,409,082	5,057,226	5,012,472
5,638,463	7,274,710	15,087,679	13,830,871	7,513,287

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail
June 30, 2005

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 570,304	55,527	625,831
Salaries and wages	82,905	48,650	131,555
Payroll and withholding taxes	20,007	-	20,007
Sales tax payable	14,604	-	14,604
Sewer and trash payable	<u>99,125</u>	<u>-</u>	<u>99,125</u>
Total	<u>\$ 786,945</u>	<u>104,177</u>	<u>891,122</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2005

		Assets		
		Balance		Balance
		June 30,	Acquisitions	June 30,
		2004	(Eliminations)	2005
Property and equipment:				
Light Fund:				
At appraisal values:				
Buildings	\$	598,000	-	598,000
Generating equipment		1,653,400	-	1,653,400
Distribution system		809,400	-	809,400
Machinery and equipment		30,250	-	30,250
Office furniture and fixtures		8,400	-	8,400
Total	\$	3,099,450	-	3,099,450
At cost:				
Land improvement	\$	23,653	-	23,653
Buildings		362,552	-	362,552
Generating equipment		9,817,179	-	9,817,179
Distribution equipment		6,815,534	38,846	6,854,380
Machinery and equipment		622,371	28,342	636,237
Transportation equipment		150,727	-	150,727
Office furniture and fixtures		146,620	7,266	153,886
Consultant services		1,124,329	-	1,124,329
Steam supply line		42,667	-	42,667
Computer		167,325	21,256	188,581
Construction in progress		71,143	40,951	40,951
Leasehold improvements		22,703	-	22,703
Total	\$	19,366,803	136,661	19,417,845

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

(continued)

See accompanying independent auditors' report on supplemental data.

Assets		Accumulated Depreciation			Depreciated	
Estimated Life In Years		Balance June 30, 2004	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2005	Cost June 30, 2005
30	\$	593,593	4,407	-	598,000	-
30		1,635,179	18,221	-	1,653,400	-
30		800,390	9,010	-	809,400	-
8-10		30,250	-	-	30,250	-
5		8,400	-	-	8,400	-
	\$	3,067,812	31,638	-	3,099,450	-
15	\$	18,750	907	-	19,657	3,996
30		138,004	12,025	-	150,029	212,523
10-30		1,745,262	325,236	-	2,070,498	7,746,681
30		3,381,642	227,825	-	3,609,467	3,244,913
8-10		438,133	44,036	(11,762)	470,407	165,830
5		150,727	-	-	150,727	-
5-10		100,235	14,415	-	114,650	39,236
5		1,123,584	557	-	1,124,141	188
10-30		39,583	640	-	40,223	2,444
3-8		156,553	5,317	-	161,870	26,711
		-	-	-	-	40,951
5		22,703	-	-	22,703	-
	\$	7,315,176	630,958	(11,762)	7,934,372	11,483,473

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2005

		Assets		
	Balance		Trades	Balance
	June 30,	Acquisitions	and	June 30,
	2004	(Eliminations)	(Adjustments)	2005
<hr/>				
Property and equipment:				
Water Fund:				
At appraisal values:				
Buildings	\$ 146,000	-	-	146,000
Pumping and filtering equipment	504,300	-	-	504,300
Distribution system	917,200	-	-	917,200
Machinery and equipment	12,995	-	-	12,995
Office furniture and fixtures	4,200	-	-	4,200
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 1,584,695	-	-	1,584,695
	<hr/>	<hr/>	<hr/>	<hr/>
At cost:				
Buildings	\$ 1,274,468	-	-	1,274,468
Edr treatment plant	6,149,810	-	-	6,149,810
Pumping and filtering equipment	523,314	61,848	-	585,162
Distribution system	3,167,110	79,552	-	3,246,662
Water tower	1,216,996	-	-	1,216,996
Machinery and equipment	616,377	24,592	(34,022)	606,947
Land	131,975	-	-	131,975
Consultant services	851,725	3,793	-	855,518
Construction in progress	52,719	49,718	(52,719)	49,718
Furniture and fixtures	50,018	1,990	-	52,008
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 14,034,512	221,493	(86,741)	14,169,264
	<hr/>	<hr/>	<hr/>	<hr/>

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

See accompanying independent auditors' report on supplemental data.

Assets		Accumulated Depreciation			Depreciated Cost June 30, 2005	
Estimated Life In Years	Balance June 30, 2004	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2005		
10-30	\$	146,000	-	-	146,000	-
21-30		504,300	-	-	504,300	-
40		703,392	22,930	-	726,322	190,878
8-10		12,995	-	-	12,995	-
10		4,200	-	-	4,200	-
	\$	<u>1,370,887</u>	<u>22,930</u>	<u>-</u>	<u>1,393,817</u>	<u>190,878</u>
10-30	\$	609,947	35,735	-	645,682	628,786
40		787,452	153,746	-	941,198	5,208,612
25-40		168,241	19,898	-	188,139	397,023
40		965,191	80,859	-	1,046,050	2,200,612
21-40		331,220	31,896	-	363,116	853,880
5-10		508,567	33,344	(34,022)	507,889	99,058
		-	-	-	-	131,975
5		830,322	6,634	-	836,956	18,562
		-	-	-	-	49,718
10		23,461	3,930	-	27,391	24,617
	\$	<u>4,224,401</u>	<u>366,042</u>	<u>(34,022)</u>	<u>4,556,421</u>	<u>9,612,843</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail
June 30, 2005

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 27,859	27,685
Power plant:		
Fuel, coal and oil	79,672	250,000
Purchased power	3,124,249	2,600,000
Production:		
Labor	200,790	178,500
Chemicals	9,173	25,000
Maintenance:		
Labor	77,596	85,875
Supplies	11,123	12,500
Other:		
Meal allowance	33	100
Miscellaneous	178	936
Depreciation	342,487	330,000
Mileage	-	100
Freight	-	100
Miscellaneous contracted service	66,100	72,000
Repairs	1,275	2,500
Education and training	-	200
Insurance	39,731	42,400
Bond issuance cost	11,832	11,832
Books and instructional materials	50	750
Total power, pumping and treatment plant	\$ <u>3,992,148</u>	<u>3,640,478</u>

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2005

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 24,729	27,685
Maintenance of line:		
Labor	173,316	207,100
Supplies	48,790	40,000
Maintenance of park and street:		
Lighting:		
Labor	5,789	12,000
Supplies	3,899	15,000
Maintenance of meters:		
Labor	28,953	19,850
Supplies	16,498	9,000
Removing and resetting meters	22,016	27,380
Other:		
Depreciation	279,263	275,000
Vehicle supplies	441	750
Vehicle repair	5,129	3,000
Mileage	-	150
Lodging	180	500
Meals allowance	41	100
Freight	-	300
Miscellaneous contracted services	47,779	50,500
Repairs	762	2,000
Insurance	39,731	42,400
Chemicals	-	200
Miscellaneous	517	829
Books and instructional materials	1,137	500
Education and training	1,242	2,500
Total transmission and distribution	\$ <u>700,212</u>	<u>736,744</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2005

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 30,910	27,950
Maintenance of pumping equipment:		
Labor	262,489	247,050
Supplies	101,535	61,000
Outside analytical services	1,848	2,500
Pumping station expense	18,923	14,000
Insurance	39,705	42,525
Chemicals	71,592	60,000
Depreciation	222,754	224,000
Other pumping and treatment expenses:		
Permits	-	1,500
Education and training	985	1,000
Books and instructional materials	32	350
Dues and subscriptions	1,883	300
Freight	-	125
Miscellaneous	136	831
Mileage	296	300
Lodging	155	300
Meal allowance	118	300
Miscellaneous contracted services	42,486	14,500
Repairs	8,003	5,000
Vehicle repairs and supplies	355	1,200
Total pumping and treatment plant	\$ <u>804,205</u>	<u>704,731</u>

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2005

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 30,910	27,950
Removing and resetting meters	48,259	38,000
Maintenance of mains:		
Labor	141,854	130,500
Supplies	37,737	25,000
Maintenance of meters:		
Labor	7,311	6,900
Supplies	44,748	35,000
Maintenance of hydrants:		
Labor	10,259	12,200
Supplies	1,187	8,000
Other transmission and distribution:		
Vehicle expense	725	1,000
Depreciation	166,218	164,000
Permits	400	200
Education and training	836	1,100
Miscellaneous	2,599	1,717
Mileage	150	250
Lodging	155	300
Meal allowance	209	300
Freight	-	125
Miscellaneous contracted services	1,907	2,500
Repairs	2,249	2,500
Vehicle repairs	8,482	3,000
Analytical service	-	50
Interest expense	214	214
Insurance	39,468	42,525
Total transmission and distribution	\$ <u>545,877</u>	<u>503,331</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2005

	Actual	Operating Budget
Operating expenses:		
Light and Water Funds:		
General and administrative:		
Education and training	\$ 336	500
Advertising	2,457	2,700
Repairs	736	500
Business meals	279	300
Administrative salaries	124,774	121,600
Administrative supplies	6,586	6,500
Trustee salaries	7,200	7,200
Accounting and collecting labor	156,954	158,600
Computer maintenance and supplies	5,714	4,500
Maintenance agreements	7,312	10,600
Bank charges	177	500
Courtesy	1,367	1,800
Insurance	18,810	20,550
Dues, assessments, and subscriptions	24,410	34,000
Meter reading wages	56,933	53,600
Meter reading supplies	-	200
Provision for doubtful accounts	31,813	25,000
Printing	3,632	4,500
First aid supplies	90	200
Postage	16,691	18,300
Telephone	17,730	15,500
Contractual services	5,791	5,500
Professional fees	19,152	26,300
Payroll tax expense	110,222	111,850
Pension expense (IPERS)	82,603	81,800
Group insurance	205,223	216,350
Mileage	990	1,000
Transportation and vehicle expense	18,512	15,250
Options 2000	2,841	2,500

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2005

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	8,807	5,000
Safety program	2,367	2,500
Miscellaneous	2,643	1,400
Lodging	827	1,400
Drug testing	413	750
Economic development	35,000	35,000
Depreciation	<u>9,209</u>	<u>7,500</u>
Total general and administrative	\$ <u><u>988,601</u></u>	<u><u>1,001,250</u></u>
Allocated as follows:		
Electric Fund	\$ 741,451	
Water Fund	<u>247,150</u>	
Total as above	\$ <u><u>988,601</u></u>	

* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities
June 30, 2005

Water Revenue Note Issued December 1, 1999			Electric Revenue Note Issued May 1, 2002		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
2006	3.53	\$ 249,000	4.50	\$ 335,000	
2007	3.53	258,000	4.50	350,000	
2008	3.53	267,000	4.75	365,000	
2009	3.53	276,000	4.75	380,000	
2010	3.53	286,000	4.50	400,000	
2011	3.53	296,000	4.55	420,000	
2012	3.53	306,000	4.65	435,000	
2013	3.53	317,000	4.75	460,000	
2014	3.53	328,000	4.80	480,000	
2015	3.53	340,000	4.85	500,000	
2016	3.53	352,000	4.90	525,000	
2017	3.53	365,000	5.00	555,000	
2018	3.53	377,000	-	-	
2019	3.53	391,000	-	-	
2020	3.53	404,000	-	-	
Total		\$ <u>4,812,000</u>		\$ <u>5,205,000</u>	

See accompanying independent auditors' report on supplemental data.

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa:

We have audited the accompanying financial statements of the business type activities of the Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mt. Pleasant Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Mt. Pleasant Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mt. Pleasant Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Mt. Pleasant Municipal Utilities' operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Mt. Pleasant Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the citizens of Mt. Pleasant, the officials and employees of Mt. Pleasant Municipal Utilities and other parties to whom the Mt. Pleasant Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Mt. Pleasant Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
August 17, 2005

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings
Year Ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because of the effects of appraised values of equipment and fund balance breakdown.
2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
3. The audit did not disclose any non-compliance which is material to the financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

II-A-05 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories – The Municipal Utilities' official depository banks are:

<u>Deposit</u>	<u>Amount</u>
Henry County Bank	
Mt. Pleasant, Iowa	\$ 6,000,000.00
U.S. Bank	
Mt. Pleasant, Iowa	6,000,000.00
First Federal Savings Bank	
Burlington, Iowa	1,000,000.00

A resolution naming official depositories has been adopted by the Utilities' Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year June 30, 2005.

III-B-05 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Expenditures for the year ended June 30, 2005 did not exceed the amounts budgeted. The budget was amended by May 31st as required by Chapter 331.435 of the Code of Iowa.

III-C-05 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-D-05 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (Continued):

III-E-05 Business Transactions – Business transactions between the Utility and Utility employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and maintenance	\$ 3,281
Joe Syfert, brother of employee	Purchased cone shaped meter pit	200
Jerry Glanzman, spouse of employee	Computer consulting	1,138

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Joe Syfert and Jerry Glanzman do not appear to represent a conflict of interest since the total for each was less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The Utilities should consult legal counsel to determine the disposition of this matter.

Response – We will consult legal counsel.

Conclusion – Response accepted.

III-F-05 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-05 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes.

III-H-05 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

III-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (Continued):

III-J-05 Economic Development – During the year ended June 30, 2005, the Utilities made a three year pledge to Mainstreet Mt. Pleasant for \$2,500 per year, which may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

Recommendation – According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Response – We will evaluate the public benefits and discuss specific criteria to be considered in documenting public purpose.

Conclusion – Response accepted.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Staff

This audit was performed by:

Tom L. Holtkamp, CPA, Manager
Ted M. Wiegand, CPA, Assistant Auditor